NAPA COUNTY
ASSESSMENT PRACTICES SURVEY
AND
ASSESSOR'S RESPONSE

OCTOBER 1998

CALIFORNIA STATE BOARD OF EQUALIZATION

FOREWORD

The county assessor is responsible for the assessment of all taxable property within the county, except state-assessed property. The assessor's responsibilities include such things as (1) discovering and taking inventory of all property within the county, (2) determining a property's eligibility for a full or partial exemption from assessment, (3) determining the proper assessee who is usually but not always the owner, (4) determining the location for assessment purposes of the property, and (5) determining the taxable value of the property in accordance with California property tax law.

Determining taxable value is usually the most difficult and subjective of the assessor's duties. In addition to the inherently subjective nature of the appraisal process, the assessor also has to determine whether the taxable value is to be based on current fair market value or on a base value set earlier. When there is construction activity on a property, the assessor has to determine whether the construction is to be assessed or whether it is excluded from assessment under the law. When there is an ownership transaction, the assessor has to determine whether the law requires a reassessment of the property or whether the property must continue to be assessed according to the existing base value.

The factors discussed above, as well as others not mentioned here, contribute to making local property tax assessment a difficult tax program to administer. It is also a very important program since the property tax is one of the most important sources of revenue for local governments and public schools. For property owners it is a major annual tax burden, and, since it is normally paid in one or two large installments rather than many small increments, it tends to be more visible than most other taxes. Accordingly, proper administration of the property tax assessment program is vitally important both to the public agencies that rely on the tax and to the people who have to pay the tax.

Although the primary responsibility for local property tax assessment is a function of county government, the State Board of Equalization has a number of duties in the property tax field imposed by the State Constitution and the Legislature. One of these duties, performed by the Board's County Property Tax Division, is to conduct periodic surveys of local assessment practices and report the findings and recommendations that result from the survey. The surveys may include a sampling of assessments of the local assessment roll, and they must include research in the assessor's office to determine the adequacy of the procedures and practices employed by the assessor in the assessment of taxable property, compliance with state law and regulations, and other required duties.

The assessor was provided a draft of this report and given an opportunity to file a written response to the recommendations and other findings contained in the report. This report, together with the county assessor's response and the Board's comments regarding the response, constitute the final survey report which is distributed to the Governor, the Attorney General, both houses of the State Legislature; and the county's Board of Supervisors, Grand Jury, and Assessment Appeals Board.

Fieldwork for this survey report of the Napa County Assessor's Office was completed by County Property Tax Division staff during May and June of l997. This report does not reflect changes implemented by the assessor after the field work was completed.

The Honorable John Tuteur, Napa County Assessor, and his staff gave us their complete cooperation during the assessment practices survey. We gratefully acknowledge their patience and good spirit during the interruption of their normal work routine.

William B. Jackson, Chief
County Property Tax Division
Department of Property Taxes
California State Board of Equalization
October 1998

COUNTY PROPERTY TAX DIVISION SURVEY GROUP

Napa County

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I. INTRODUCTION, SUMMARY, RECOMMENDATIONS, AND SUGGESTIONS

A. INTRODUCTION

Subdivision (a) of section 15640 of the Government Code provides that:

> The State Board of Equalization shall make surveys in each county and city and county to determine the adequacy of the procedures and practices employed by the county assessor in the valuation of property for the purposes of taxation and in the performance generally of the duties enjoined upon him or her.

In addition, subdivision (c) provides that:

> The surveys may include a sampling of assessments from the local assessment rolls. Any sampling conducted pursuant to subdivision (b) of Section 15643 shall be sufficient in size and dispersion to insure an adequate representation therein of the several classes of property throughout the county.

It is apparent from this language that the Legislature envisioned the Board's County Property Tax Division's (CPTD) assessment sampling and office survey to be integral components of a unified process, i.e., the evaluation of how well the county assessor is carrying out the sworn duty of assessing all taxable property on the local tax roll. This evaluation was to be based both on actual field appraisals of sampled roll items and in-office interviews and research.

Government Code section 15640, subdivision (f) also provides that:

> The board shall develop procedures to carry out its duties under this section after consultation with the California Assessors' Association. The board shall also provide a right to each county assessor to appeal to the board appraisals made within his or her county where differences have not been resolved before completion of a field review and shall adopt procedures to implement the appeal process.

The way in which the sampling and survey process is carried out was developed after the CPTD staff met with county assessors and their representatives.

This report is the culmination of a review that began with CPTD's staff appraisals of randomly selected assessments on the Napa County 1993-94 local tax roll. The survey team analyzed the results of the assessment sampling, then examined current practices and procedures to see whether problems identified in the sampling still existed in the assessor's operation.

Finally, the survey team developed positive courses of action, presented here as recommendations and suggestions, to resolve the problems identified in the assessor's programs.

1. <u>Overview of the Napa County Assessment Roll</u>

Regardless of the size of the county, the assessment of property for tax purposes is a formidable task. Proper administration of this task is vital both to government agencies in Napa County and to taxpayers. Because the job is so important and so complex, it is necessary for an independent agency such as the Board to make periodic reviews of the assessor's operation. This survey report is the result of such a review of the Napa County Assessor's Office by CPTD.

This survey was conducted according to the method mandated by section 15642 of the Government Code. Following legislative direction, our survey primarily emphasizes issues that involve statutory mandate.

Revenue and Taxation Code section 75.60[1] requires that the Board certify a county as eligible for the recovery of costs associated with administering supplemental assessments. The Board may certify a county as an eligible county if both of the following conditions are determined to exist:

> (A) The average assessment level in the county or city and county is at least 95 percent of the assessment level required by statute, as determined by the board's most recent survey of that county or city and county performed pursuant to section 15640 of the Government Code.
>
> (B) For any survey of a county assessment roll for the 1996-97 fiscal year and each fiscal year thereafter, the sum of the absolute values of the differences from the statutorily required assessment level described in subparagraph (A) does not exceed 7.5 percent of the total amount of the county's or city and county's statutorily required assessed value, as determined pursuant to the board's survey described in subparagraph (A).

However, since the last sampling of Napa's assessment roll was for the 1993-94 fiscal year, paragraph (B) is not applicable. CPTD's field appraisal team completed appraisals of 241 properties of all types assessed on the 1993-94 Napa County assessment roll. This roll contained a total of 49,060 assessments having a total enrolled value of $8,515,753,980. (For a detailed explanation of CPTD's assessment sampling program, see Appendix A at the end of this report.) Sampling data indicated the composition of the roll by property type as follows:

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[1] All statutory references are to the Revenue and Taxation Code unless otherwise indicated.

Property Type	No. of Assessments in County	Enrolled Value
Residential	37,486	$4,779,792,764
Rural	3,913	1,948,884,169
Commercial/Industrial	5,678	1,685,862,401
All Others	1,983	101,214,646
Total	49,060	$8,515,753,980

As a result of our sampling, we find that Napa County's 1993-94 assessed value of $8,515,753,980 was 99.1 percent of the statutorily required $8,596,033,790. Considering our recent assessment sampling, the Board certified Napa County as an eligible county. This indicates that its assessment program is substantially in compliance with the law. The recommendations and suggestions contained in this report are based on our analysis of the sampling data and a review of the office procedures which indicate that statutory violations, underassessments or overassessments, or unacceptable appraisal practices may be occurring in specific areas.

2. Budget and Workload

Since the 1990-91 roll year, the total regular section 601 roll in Napa County has increased as follows: [2]

Year	Total Value	Increase	Statewide Increase
1992-93	$8,296,676,000	7.64%	5.4%
1993-94	$8,727,386,000	5.19%	2.8%
1994-95	$9,048,918,000	3.68%	1.3%
1995-96	$9,374,729,000	3.60%	0.7%
1996-97	$9,669,003,000	3.10%	1.3%

For the fiscal year 1995-96 the Napa County assessor prepared an assessment roll containing 52,153 assessments on an approved budget of $1,052,548, which is approximately the same as the last two years' budgets. This budget funded 21 full time positions.[3]

The real property workload for the past year in Napa County included about 2,600 sales and other transfers and approximately 800 reassessments resulting from new construction discovered through building permits or other means. The assessor's office processed more than 170 properties affected by misfortune or calamity. In addition, the staff processed approximately

[2] Table source: State Board of Equalization Annual Reports, Table 5, P. A-5.
[3] Source Document: "A Report of Budgets, Workloads, and Assessment Appeal Activities in California Assessors' Office," 1995-96.

106 property splits. The real property section also performed many other tasks including assessment appeals and reviews of declining values.

In the past year, the business property section enrolled approximately $407,000,000. They processed 3,674 business property statements and valued 286 general aircraft and 1,679 vessels. In addition, the business property section completed 55 mandatory audits and accomplished many other tasks, including assessment appeals, direct billing, and leased equipment assessments.

The professional staff budgeted to handle the real and business property consists of one chief appraiser, one supervising appraiser, two appraiser III's, one auditor-appraiser III, four appraiser II's, two auditor-appraiser II's, and one appraiser-aide.

B. SUMMARY

We found the assessor's office to be well run and very efficient. There is good coordination and communication among the intra-office divisions and between county departments to provide better service to taxpayers. In this world of fiscal restraint, the assessor has maintained an excellent assessment program with high service levels to taxpayers. He has taken steps to incorporate various improvements and innovations into many assessment programs. The assessor is one of the most active in maintaining public contact. He can frequently be found helping taxpayers at the public counter. In addition, he hosts a talk show at a local radio station and maintains a regular column in a local newspaper. We commend the assessor and his professional and technical staffs for those improvements and innovations, which are briefly outlined in the following paragraphs.

The assessor's office was part of a county program that standardized and converted the local area networks of the various county agencies to a wide area network to include all county agencies. This conversion has added substantial automation capabilities for each member of the assessor's staff, as well as the ability to move information among county departments.

In 1995 the assessor's office decided to convert their mylar mapping system to a fully automated cadastral drafting (AutoCad) system. The conversion was made possible with the help of the staff of the Solano County Assessor-Recorder's Office. Solano County staff installed and customized the necessary proprietary software. They also provided training and on-site assistance. At the time of our survey fieldwork, approximately 300 of 1,750 map pages had been scanned and digitized.

With the help of the Napa County Management Information Services, the appraisal staff developed a program to track data on and value vineyards. The program is estimated to save the equivalent of a half-time appraisal position, allowing the appraisal staff to spend more time on the large increase in requests for reviews due to declines in value.

The business property section is in the process of automating the mandatory audit program. Recently a spreadsheet program was developed with the assistance of an outside contractor to calculate values for costs accumulated by year of acquisition, as well as to calculate values for individual items of equipment. Using this new software program, the staff anticipates time savings which can be used for completing more audits.

The Napa County Building Department has implemented an automated on-line permit-issuing process which is fully accessible to the assessor’s office. With the installation of the countywide network, the assessor’s office can access the building department’s database that shows stages of construction and completion dates for all permits generated by the building department.

In order to respond adequately to the large volume of assessment appeals, the Clerk of the Napa County Board of Equalization and the assessor’s office are in the process of jointly developing a program to track and manage assessment appeals. The program will track the status of applications, proposed stipulations and withdrawals, and generate hearing and continuance notices.

We found that the staff’s program for the valuation of real property following changes in ownership is very good. We do, however, have a two-fold recommendation. First, when establishing a new base year value as a result of a change in control of an entity, staff should use the date of change of control provided by the Board, rather than the recorded date of any deeds for the same event. Second, the assessor’s staff should reappraise all transfers of undivided ownership interests whenever the cumulative value of multiple transfers of ownership exceeds more than $10,000 in any year.

Our review of the assessor’s valuation of new construction shows that the overall program, including the permit process, works very well.

With respect to declines in value below factored base year value, the assessor’s staff has done a commendable job of actively seeking out information concerning declining market values. Local newspaper releases and radio commentaries are run requesting taxpayers to contact the assessor’s office if they believe their assessments exceed the current market value of their properties.

The county’s California Land Conservation Act (CLCA) program is administered very effectively by one appraiser III. Our only recommendation pertaining to this program is that the staff capitalize appropriate economic rent for winery sites.

After reviewing a large number of possessory interest appraisals, we concluded that the assessor’s staff takes a thorough approach in their endeavor to maintain an excellent possessory interest assessment program. We did discover that not all taxable possessory interests in property owned by the agricultural district fair and the county fair are being assessed.

There are roughly 1,200 manufactured homes on the local property tax roll in Napa County. The assessor's staff has done a commendable job in assessing all eligible manufactured homes and accessories, but we urge the assessor to properly adjust base year values by the Board-announced annual inflation factor.

The highest priority for the assessor's business property staff should be to bring the mandatory audit program to a current status. Concurrent with this effort, waivers of the statute of limitations should be requested when it is likely that the four-year limit cannot be met. As of June 1, 1997, it was necessary to send out 70 requests for waivers to protect the right to audit for the year 1993. We strongly recommend that the assessor and his staff make the issue of backlogged mandatory audits a high priority for resolution.

Other recommendations concerning the business property section include using all of the Board's equipment index factors, excluding multi-location accounts from the direct billing program, improving property statement processing, and improving the aircraft and vessel valuation programs.

The Board annually publishes 20 equipment index factors to help assessors in the valuation of business property and trade fixtures. The assessor's staff currently use only five of these index factors when developing their combined valuation factors. Overall county totals may show only small differences, but individual appraisals may be materially distorted. We urge the assessor to use appropriate equipment index factor categories when valuing business property.

During our review of the county's direct billing program, we found several individual locations of multi-location accounts that were enrolled as direct bills, although the total reportable costs of all locations combined were more than $100,000. Current law states that each person owning taxable personal property, other than a manufactured home, having an aggregate cost of $100,000 or more shall file a property statement with the assessor.

The business property statement processing program has areas in need of improvement. First, discontinue the practice of allowing the assessment clerks to value boats and aircraft. Second, be consistent in the application of equipment service lives for like businesses.

The assessor's staff has not made any field inspections of private aircraft for four years, and they make improper engine overhaul adjustments. The staff makes engine hour adjustments to aircraft values, but where values should have been adjusted upward for engine hours, no adjustments were made.

Vessels should be valued annually. The business property section initially assesses all vessels at market value using the *National Automobile Dealers Association Small and Large Boat Appraisal Guide (NADA).* Once the initial value is set, an annual 10 percent fixed depreciation rate is assumed for each boat. This arbitrary value reduction may or may not represent market value and should be discontinued.

C. RECOMMENDATIONS AND SUGGESTIONS

This report contains both recommendations and suggestions for improvements to the operation of the Napa County Assessor's Office. Our recommendations are reserved for situations where one or more of the following conditions exist:

- Property tax statutes, Board policy, or taxpayer's rights are being violated;
- Existing practices are improperly reducing or inflating local tax revenues;
- Existing appraisal practices do not conform to generally accepted appraisal theory.

Following are the recommendations and suggestions contained in this report. They are listed in the order they appear in the text along with the page number on which they can be found.

RECOMMENDATIONS

RECOMMENDATION 1: Revise the roll change procedures by: (1) citing the proper statutory provision; and (2) indicating to the county auditor when section 506 interest is applicable. (Page 13)

RECOMMENDATION 2: Revise the procedures for processing changes in ownership by: (1) utilizing the date of change of control rather than the recording date; and (2) appraising all transfers of undivided ownership interests when the cumulative value of transfers of ownership exceeds $10,000 or more in any given year. (Page 20)

RECOMMENDATION 3: Revise the procedures for assessing California Land Conservation Act (CLCA) properties by assigning a commercial economic rent to winery sites. (Page 25)

RECOMMENDATION 4: Assess all taxable possessory interests in property owned by the agricultural district fair and the county fair. (Page 26)

RECOMMENDATION 5: Revise the mineral property program by: (1) using the appropriate discount rate to capitalize income; and (2) developing current market value for decline in value comparison. (Page 31)

RECOMMENDATION 6: Bring the mandatory audit program to current status. (Page 34)

RECOMMENDATION 7: Revise the procedure for classifying machinery and equipment. (Page 36)

RECOMMENDATION 8: Require all taxpayers with tangible personal property costing $100,000 or more to file annual property statements as required by section 441. (Page 38)

RECOMMENDATION 9: Revise the property statement processing program by: (1) using certified personnel for appraisals; and (2) using uniform application of service lives within similar business types. (Page 39)

RECOMMENDATION 10: Improve general aircraft assessment procedures by: (1) conducting annual field inspections; and (2) making engine hour adjustments consistently. (Page 43)

RECOMMENDATION 11: Upgrade the boat appraisal procedures by annually appraising pleasure boats at market value. (Page 44)

RECOMMENDATION 12: Revise documented vessel procedures by enrolling the assessed value on the regular assessment roll. (Page 45)

SUGGESTIONS

SUGGESTION 1: Develop a formal policy and procedures manual and ensure that it is updated as needed. (Page 11)

SUGGESTION 2: Obtain fire department reports. (Page 15)

SUGGESTION 3: Request that the county board of supervisors simplify the low-value property exemption ordinance. (Page 16)

SUGGESTION 4: Improve ownership identification of real property owned by governmental agencies. (Page 28)

SUGGESTION 5: Use a Property Tax Rule 469 worksheet to keep track of property allocation among improvements, mineral rights, and personal property. (Page 32)

SUGGESTION 6: Initiate a nonmandatory audit program. (Page 35)

SUGGESTION 7: Revise staff assignments and audit procedures so that auditor-appraisers can complete more audits. (Page 35)

SUGGESTION 8: Use all of the Board’s equipment index factors. (Page 38)

SUGGESTION 9: Improve the processing of property statements by reviewing business property appraisals prior to enrollment. (Page 40)

SUGGESTION 10: Obtain access to DMV's vessel database. (Page 44)

II. ADMINISTRATION

A. INTRODUCTION

The following sections will present recommendations and/or discussions of topics that affect both the real and business property sections or their coordination.

B. POLICY AND PROCEDURES

1. State-County Property Tax Administration Program

Section 95.31 provides that upon recommendation of the assessor and by resolution of the county board of supervisors, the county may elect to participate in the State-County Property Tax Administration Program (more commonly called AB 818, after the assembly bill that created this program).

A county may apply for a loan to enhance its property tax administration system, reduce backlogs of new construction and changes in ownership, and maximize value enrollment capabilities. The majority of California counties (41 out of 58) participate in the program. Since not all of the counties shared in the program, only $48 million of the $60 million available for fiscal year l995/96 was loaned out.

The county under contract does not necessarily repay the loan in cash. Each contract contains performance measures needed in order to have the loan amount forgiven. The completion of these measures would, in theory, generate property tax revenue to schools greater than or equal to the loan amount.

On April 9, l996, the Napa County Board of Supervisors, upon the recommendation of the assessor, elected to participate in the State-County Property Tax Administration Program for the period beginning with the l995-96 roll year and ending June 30, 2000.

Under the contract, the State agreed to loan $366,020 for fiscal years l995-96, l996-97, and l997-98. In exchange, the county agreed to use funds received from the State to enhance property tax administration while maintaining staffing and total funding at levels equal to or exceeding those of the l994-l995 fiscal year.

For the initial loan, the assessor proposed to enhance the property tax administration system by: reducing backlogs of mandatory and non-mandatory audits, postponed reappraisable transfers, and escaped new construction; expediting declines in value reviews; defending applications for changed assessment; and maximizing value enrollment and tax collection capabilities.

Each AB 818 contract contains the performance measures required to have the loan amount forgiven. Both the reported figures and the calculations must be verified by the county's auditor-controller.

A loan will be considered repaid if the county is able to reduce its backlog so that its "percentage of success" exceeds 95 percent. This is computed by using the formula as stated in the agreement.

(A/B)*C   A= The number of units actually completed (achieved)
B= The number of units projected for completion (goal)
C= The weighted six categories

Under the terms of the contract, the assessor reported, and the auditor-controller verified by audit, that the "percentage of success" achieved was almost 149 percent. The total added state and county revenue resulting from enrolling backlogged assessable events was estimated to be in excess of $2,500,000.

Our survey objective was to review the terms of the contract, verify maintenance of base year funding and staffing levels, review the county auditor-controller's report, review the audit workpapers, and form an opinion as to audit procedures. We found that the Napa County assessor met all these objectives and is to be commended for outstanding goal achievement in the AB 818 program.

2. Procedures Manual

A comprehensive policy and procedures manual is a beneficial device for communicating to staff the organization's policies and procedures and current information of a relatively permanent nature on subjects pertaining to general administration and specific operational procedures. It can also ensure that all staff receive the same direction and follow the same procedures.

SUGGESTION 1: Develop a formal policy and procedures manual and ensure that it is updated as needed.

The assessor's office has an administrative policy and procedures manual and a separate operations manual for the administrative and the valuation divisions. None of the manuals have been updated recently, and, in fact, the operations manual for the valuation division consists primarily of accumulated staff meeting notes. In order to provide consistent direction to the staff and reduce confusion concerning reference sources, we suggest that the assessor combine these manuals into one policy and procedures manual with separate sections for the function of each division.

In addition, we suggest that the assessor's office update the manual on a more frequent basis. While the existing manual adequately serves as the official comprehensive source of policies and procedures that affect all of the assessor's staff, some sections are more current than others.

In order for the assessor’s staff to receive the same clear and concise administrative direction, the policy and procedure manual should be updated frequently. A policy and procedure manual is a good source of information for new supervisors and staff who must familiarize themselves with the office's rules, administrative practices, and operational procedures of the office.

3. Training

Section 670 provides that no person may perform the duties of an appraiser for property tax purposes unless he or she holds a valid certificate issued by the State Board of Equalization. Section 671 further provides that all appraisers shall complete at least 12 hours of training annually if he/she holds an advanced certificate, or 24 hours of training annually if the appraiser does not have an advanced certificate.

There are 10 appraisers in the assessor’s office subject to the requirements of section 670 and section 671. Only three of the appraisal staff do not hold an advanced certificate, and those three have not been employed as appraisers long enough to meet the minimum requirements for an advanced certificate. It is the assessor’s intention to get an advanced certificate for these three employees as soon as possible.

To qualify for an advanced appraiser’s certificate, one must have a minimum of six Board courses, with at least two classified as advanced. Outside courses that could be substituted for a Board advanced course include an Appraisal Institute course lasting longer than three days or a college appraisal course.

All county appraisers except one are current in their continuing education requirements. The real property appraiser who is deficient in training credit could make up the time by attending one or more appraisal seminars. The assessor’s office is doing a good job in keeping a current status for the continuing educational requirements.

4. Assessment Roll Procedures

The county assessor has the duty to complete the annual local assessment roll and deliver it to the county auditor. After delivery of the roll to the auditor, the assessor cannot change an assessment unless authorized by the board of supervisors, the county counsel, or statutory provisions.

Escape assessments are assessments made after the assessor has certified that the completed local roll was prepared pursuant to section 601. Upon discovery of property escaping assessment, the assessor must immediately add the escape assessment and any applicable penalty and interest to the roll prepared or being prepared in the current assessment year. The assessor does not need the concurrence of any county official or board to enroll an escape.

The Revenue and Taxation Code codifies the legal authority for assessment roll changes. Specific sections of the Revenue and Taxation Code apply to assessments, escapes, and overassessments. Our review of the records indicate that the assessor's staff often cites an incorrect statutory provision when making a correction to the assessment roll. Our review also discovered that in certain circumstances section 506 interest was not included in the assessment.

RECOMMENDATION 1: Revise the roll change procedures by: (1) citing the proper statutory provision; and (2) indicating to the county auditor when section 506 interest is applicable.

Cite Proper Statutory Authorities

When making changes to the assessment roll, the assessor's staff is inconsistent when citing the code sections of the Revenue and Taxation Code authorizing the roll change. Assessors' Handbook Section 271, *Assessment Roll Procedures*, describes that property not on the July 1 local roll be enrolled as escaped assessments under the provisions of section 531 et seq.

Section 4831 should be cited only for correction of errors caused by the assessor. Section 4831.5 should be cited only for taxpayer errors resulting in an excessive assessment. If the taxpayer's error results in an underassessment, the difference must be assessed as an escaped assessment. Sections 531, 531.1, 531.3, and 531.4 provide for interest and penalty charges under sections 506 and 504, within prescribed circumstances.

We recommend that the staff be more diligent when citing the proper code sections when making roll corrections.

506 Interest

As part of our random review, we examined two roll changes involving the homeowners' exemption. On these two occasions the assessor's staff canceled a homeowners' exemption previously granted in error. The staff correctly cited section 531.6 as the legal basis for these roll corrections. However, no section 506 interest was included as required by section 531.6.

The facts are that: (1) two homeowners' exemption claims were filed; (2) the assessees failed to notify the assessor that one of their properties was no longer eligible for the exemption; and (3) this is not an assessor's error. Therefore, based on these facts, section 506 interest should have been added to the assessment. Even though it is the county auditor's responsibility to calculate this interest, the assessor has the responsibility to notify the auditor to make this calculation.

We recommend that the assessor's staff review their roll change procedures to make sure that the county auditor is notified when the required interest should be applied.

C. ASSESSMENT APPEALS

The assessment appeals function is sanctioned under article XIII, section 16, of the California Constitution, which provides that the Legislature shall determine the manner and procedure of assessment appeals. Sections 1601 through 1641.1 are the statutory provisions to guide county boards of supervisors in the appeals function. Government Code section 15606(c) directs the State Board of Equalization to prescribe rules and regulations to govern local boards of equalization, and the Board has adopted sections 301 through 326 of Title 18 of California Code of Regulations (Property Tax Rules 301 through 326) regarding assessment appeals.

We conducted a review of the appeals functions involving both the activities of the county appeals board and the assessor's office as they relate to assessment appeals. A general recession in California resulted in declining real estate values and drastic increases in assessment appeals. Most of the increase in appeal filings is based on the claim that the market value of real property is lower than the factored base year value. A market value that is less than the factored base year value is referred to as a "Proposition 8" value, in recognition of its ballot title in 1978.

The Napa County Board of Supervisors acts as the county board of equalization for all assessment appeals. Appeals for reductions in value are made to this board when a property owner claims that the market value of his or her property is less than its assessed value.

Usually the appraiser responsible for the original assessment is responsible for preparing and presenting the response to the assessment appeal. When complex properties become an issue, the chief appraiser or the assessor makes the presentation. If the property under appeal involves business property, then the lead auditor-appraiser takes control. The assessor does not have formal written instructions or procedures for assessment appeals; most of the historical guidance reference material are informal letters.

Napa County has not escaped the economic recession of the 90's. The assessor's office, as in most counties in the state, has had an increase in the number of appeals. Today, the annual numbers of appeals range from 300-400, while prior to the recession there were only 100-200.

Approximately 35-40 percent of the initial appeals are withdrawn or the property owner fails to appear at the hearing. During a normal year, an additional 50 percent of the original number of appeals are resolved by stipulations (a stipulated value is one in which the assessor and taxpayer agree to a value, which, if accepted by the appeals board, avoids a formal hearing). That leaves 10-15 percent to be resolved by the appeals board.

The assessor and his staff have a good working relationship with the Napa County Board of Supervisors. After attending an appeals hearing, it appears that their preparation and presentation was very professional. Upon completion of the hearing, one of the board members complimented the assessor for presenting and finalizing several cases so thoroughly in such a short period of time.

We commend the assessor and his staff for their efficiency in the processing of assessment appeals and their appeals presentation. Both are extremely important and necessary in an effective assessment appeals program.

D. DISASTER RELIEF

Section 170 permits a county board of supervisors to adopt an ordinance that allows property tax relief to owners of damaged or destroyed property. The board of supervisors may limit eligible properties to those properties located in an area subsequently proclaimed by the Governor to be in a state of disaster or may adopt an ordinance that allows tax relief for any damaged or destroyed property that qualifies.

The Napa County Board of Supervisors adopted an ordinance granting the assessor the power to provide tax relief on properties damaged by calamity or misfortune. The ordinance (Ordinance No. 524), passed on January 4, 1977 and amended November 10, 1981, is a broad-based ordinance dealing with any type of damage or destruction of property.

Ordinance No. 524 contains provisions that include detailed information on the following topics: how to file an application; time limits on filing; procedures for reassessment; assessor's notification of possible qualification; and the cancellation or refund of tax. In general, the ordinance provides that after an application is received, the assessor shall appraise the property immediately before and after the destruction and reduce the value on the roll by the appropriate amount.

In 1992 the assessor made an extensive revision to the calamity appraisal worksheet. The new worksheet defines the disaster, details the proper procedures for processing applications, and helps track the status of the application. A blank worksheet is attached to each application that aids the appraiser in assuring that all pertinent details are included.

We reviewed five properties that had claims filed by the taxpayer as provided in Ordinance No. 524. The disaster consisted of two fires, two floods, and one a landslide. The building records for these five properties were examined and comparisons were made for conformance with the ordinance. All of the properties reviewed were in conformity.

SUGGESTION 2: Obtain fire department reports.

The appraisal staff usually discover calamities through building permits issued for repairs, newspaper articles, taxpayer notification, or field investigation. Fire department reports prepared by the various city and county fire departments are also valuable sources of discovery available to the staff. An estimate of the dollar amount of damage is usually provided in these reports, which can be helpful to the assessor when screening claims.

Currently, fire departments do not send reports of fires to the assessor's office. Without these reports, some damages may go unnoticed. Consequently, many property owners may not be aware of the disaster relief provisions and thus fail to contact the assessor. We suggest that the assessor's staff contact all fire departments in the county and arrange to obtain copies of all fire reports.

E. LOW-VALUE PROPERTIES

Section 155.20 permits county boards of supervisors to exempt from property tax all real and personal property with a full value so low that, if not exempt, the total taxes, special assessments, and applicable subventions on the property would amount to less than the cost of assessing and collecting them.

SUGGESTION 3: Request that the county board of supervisors simplify the low-value property exemption ordinance.

Beginning with the 1994-95 roll, the Napa County Board of Supervisors authorized the exemption of low-value properties. Their resolution reads in part: "Except as hereafter provided, real property with a base year value of, and personal property other than mobilehome accessories with a full value of $2,000.00 or less, and mobilehome accessories with a full value of $5,000.00 or less, as specifically set out in Exhibit "A," shall be exempt from property taxation." (Resolution No. 93-135, approved November 23, 1993.)

Exhibit "A" is a schedule that shows, for each of 12 tax-rate areas, the amount of full cash value that would generate less than $20 in property tax on personal property and $50 in property tax on mobilehome accessories. Though based on research and careful tracking, the amount is based on estimates. For example, based on 1996-97 rates, the scheduled exempt amount of full cash value on personal property is $1,999 when the tax rate is 0.010000 and $1,568 if the tax rate is 0.012750. Rather than exempting values that are $2,000 or less, the auditor-appraiser has to look up the tax-rate area to determine the value level that can be exempted. When followed closely, this procedure is taking extra time that could be better spent elsewhere. Also, since tax rates change, Exhibit "A" must be recalculated each year.

We suggest that the assessor request that the county board of supervisors change the wording in Resolution No. 93-135 so that it is the full value, not the tax amount, that determines the exemption levels authorized in section 155.20. This can be accomplished by merely removing from the resolution any reference to Exhibit "A" for either personal property or mobilehome accessories.

F. TECHNOLOGY

General Information

The Napa County Assessor is to be commended for his enthusiastic and effective application of computer technology to virtually every aspect of his operation. All of the staff are assigned desktop Pentium personal computers with shared software including word processing, spreadsheet, and database applications, as well as access throughout the network through electronic mail (e-mail) and scheduling functions. All non-property system applications such as Windows 3.1 are connected through a Wide Area Network (WAN). A Local Area Network (LAN) provides access to the County Building Department's system for building permit information.

The Megabyte data processing system acquired by Napa County in 1987 is still in use. Megabyte Systems, a company headquartered in Fresno, California provides a full tax cycle data-based processing system. It serves the county assessor, auditor, and tax collector offices by way of a mainframe computer. The current Megabyte integrated property system is not yet available on a countywide inquiry basis, but that situation will change with the delivery of a new client-server property system currently in development by Megabyte Systems and scheduled for release in the fall of 1997.

The same basic system provided by this company is currently utilized by eight other counties: Butte, Madera, Merced, Yuba, Monterey, Placer, Sonoma, and Kings (which maintains its own applications). The existing system is continually monitored and upgraded to correct any problems or deficiencies as identified by any of the counties.

The system is supported by a Megabyte users group which meets once a year. In addition, the Megabyte system is fully supported by user's manuals. The assessor's staff has also prepared written procedures in addition to those provided by Megabyte, including instructions on how to perform specific tasks assigned to each work station.

In our previous survey, we stated that certain minimum guarantees should be a part of any relationship an assessor has with outside vendors or consultants who will, by the very nature of their services, have unrestricted access to information legally defined as secret or confidential. Failure to do so would technically breach the confidentiality requirement of sections 408, 451, and 482 and Rule 135 (of Title 18 of the California Code of Regulations). Our current review determined that adequate controls are in place which allow the vendor to maintain the system without the risk of this type of breach of confidentiality.

In conclusion, we found the existing Megabyte System to be a valuable tool in allowing the assessor's office to run a quality program. It is anticipated that the upcoming implementation of the updated system will further enhance the program.

III. REAL PROPERTY PROGRAM

A. INTRODUCTION

County assessor's programs for assessing real property include the following major elements:

1. Revaluation of properties that have changed ownership;
2. Valuation of new construction; and
3. Annual review of properties having declining values ("Proposition 8" appraisals authorized by section 2(b) of article XIII A).

In addition to the above, the assessor maintains programs to annually revalue certain properties subject to special assessment provisions under the California Constitution, e.g., land subject to the California Land Conservation Act contracts or taxable government-owned land.

Our review of the real property assessment program indicates most aspects are functioning well. However, we offer several recommendations that we think will improve a good program.

B. CHANGE IN OWNERSHIP

1. <u>Overview</u>

CPTD's sampling of Napa County's 1993-94 roll included 66 properties that changed ownership between 1988 and 1993. Of these we were in agreement with the county on 54 sample properties while we were in disagreement on only 12 sample properties. The reasons for disagreement were various; none pointed to an incorrect procedure utilized by the county. These value disagreements did not indicate any significant problems with the assessor's change in ownership program.

2. <u>Deed Processing</u>

The Napa County Recorder's Office currently processes approximately 31,000 recorded documents annually. Of these, approximately 6,500 deeds are photocopied and delivered to the assessor's office for review to determine whether a reappraisable change in ownership has occurred. These documents are reviewed by two transfer mapping technicians who determined that about 2,600 reappraisable change in ownership occurred.

Preliminary Change of Ownership Reports (PCOR's) are filed with the county recorder's office at the same time deeds are recorded. The PCOR's are arranged in recorder's document number order and filed with the photocopied deeds.

Data from the appraisable deed is entered into the computer system, which then generates a worksheet for each parcel. The appraisal record and the attached worksheets are routed to the appropriate appraiser.

Deed information from nonappraisable transfers are input in much the same manner as appraisable transfers. The nonappraisable transfers, however, do not generate a numbered supplemental assessment or a worksheet.

The computer program has the capability to automatically generate mailing labels for Change in Ownership Statement (COS) letters upon request. The assessor's staff does not utilize this function because of the low volume of COS letters mailed. According to the assessor's records, 237 COS letters were mailed from March 1, 1995 through February 28, 1996; of these only 25 went to penalty. The assessor is to be commended for maintaining a highly efficient change in ownership program.

3. Improvement Bonds

Improvement bonds are a form of public financing associated with land improvements that generally enhance the land's value. For an assessment district to obtain this type of financing, land benefiting from the improvements must be pledged as security for repayment of the loan. As a lien against the land, the improvement bond is an obligation that must be assumed by the land owner. For this reason, when using the comparative sales approach to determine market value, Rule 4 requires that the appraiser must include the cash equivalent value of any outstanding improvement bond payments as an adjustment to the nominal selling price.

In Napa County, the nominal sales price of all properties which have bonded indebtedness are adjusted for any outstanding improvement bond. Both the county treasurer-tax collector and auditor-controller's offices provide the assessor with listings of outstanding bonds.

The secured appraisal worksheet (SAW) and the computer database has been upgraded to include a field that indicates that an improvement bond exists on a property. Now, when a transfer occurs, the appraiser is alerted by SAW to check for bonded indebtedness and include it in any revaluation.

4. Appraisal Records

The appraisal staff continue to do an outstanding job of documenting the steps utilized to arrive at appraised values. For transfers, usually a minimum of three comparable sales are documented on each appraisal record; for new construction, unit cost sources and area adjustments are noted on the building record. The appraisal records include the appropriate data on all actions taken and values enrolled, including supplemental assessments.

The appraiser utilizes the SAW to transcribe current and new roll values, indicate changes in supplemental assessment requirements, exemption status, use code, physical characteristics, and other information. Completed SAW's are routed to an assessment clerk for data-input. The assessment clerk then initials the SAW's and routes each SAW and appraisal record to the chief administrative coordinator (CAC).

The CAC verifies that the worksheet values are correctly enrolled and also verifies that no changes are made that are not authorized by an accompanying worksheet. This final check ensures that erroneous values are not entered onto the assessment roll.

5. Legal Entity Ownership Program (LEOP)

Section 64(c) provides that a change in control of any legal entity is a change of ownership for property tax purposes of all real property owned by that entity as of the date of the change in control. The Legal Entity Ownership Program (LEOP) unit of the Board's Policy, Planning, and Standards Division (PPSD) tracks changes in control of legal entities owning real property in California. Since 1982, the LEOP unit has notified the Napa County Assessor's Office of the change in control of 97 legal entities, which affected 346 parcels.

LEOP’s primary discovery tool for a change in control is through responses to questions on corporate and partnership tax returns filed with the State Franchise Tax Board. Other methods of discovery include researching financial publications and reporting by local assessor's offices.

In the 1993 survey report, CPTD suggested that the auditor-appraisers document in their audit narrative whether or not a change in control as defined in section 64(c) has occurred, and retain copies of the California Franchise Tax Return schedules ("E" and "K-1") supporting their conclusion.

Currently, copies of the California Franchise Tax Return schedules are not made when, in the opinion of the auditor-appraiser, changes are insignificant. While overall documentation in the audit narrative has improved, and many more copies of the tax return schedules are being retained, nevertheless we suggested that the assessor’s staff copy and retain **all** tax return schedules in an effort to maintain an accurate ownership history of the property in order to further enhance the discovery of changes in ownership.

RECOMMENDATION 2: Revise the procedures for processing changes in ownership by: (1) utilizing the date of change of control rather than the recording date; and (2) appraising all transfers of undivided ownership interests when the cumulative value of transfers of ownership exceeds $10,000 or more in any given year.

Date of Change of Control

The assessor's staff reappraises the real property when notified by LEOP. However, we found that in instances where a deed was recorded by the acquiring entity, the county used the recording date as the date of the change in ownership rather than the date that "control" was obtained, as reported by LEOP.

By using the date of recording rather than the date that control changed, a subject property that is reappraised takes on an incorrect change in ownership date. Section 75.10 requires the assessor to appraise property whenever a qualifying change in ownership occurs. The new value is then transmitted to the auditor to be enrolled on the supplemental tax roll. Obviously, if an incorrect date of change in ownership is established on a transferred property, then incorrect supplemental assessments will be issued.

We recommend that the assessor instruct appraisal staff to utilize the date of change in control as reported by LEOP rather than the date of recording that appears on the deed.

Transfers of Undivided Ownership Interests

One property in Napa County, a recreational ranch covering approximately 1,100 acres, has an ownership structure that is comprised of 1,800 undivided interests. A small percentage of these interests change ownership each year. In 1996, there were 135 undivided interests that met the qualifying conditions of a reappraisable transfer, or 7.5 percent of the 1,800 undivided interests. Over several years less than 5 percent of these undivided interests have transferred.

To date, the assessor has only valued new construction since the creation of these undivided interests in 1982, while changes in ownership have been ignored. Section 65.1 provides that "a purchase or change of ownership of an interest with a market value of less than 5 percent of the value of the total property shall not be reappraised if the market value of the interest transferred is less than ten thousand dollars ($10,000) provided, however, that transfers during any one assessment year shall be cumulated for the purpose of determining the percentage interests and value transferred."

We found in our review of current sales that these interests are currently selling for approximately $6,700 each, meaning that as few as two sales would exceed the $10,000 limit in the current year. Therefore, two or more transfers in any one assessment year would make it necessary to value all ownership interests transferred in that year.

We recommend that the assessor reappraise those ownership interests that meets the change in ownership provisions of section 65.1.

C. NEW CONSTRUCTION

1. Overview

California law requires that newly constructed real property be valued as of the date construction is completed. In Napa County, the primary source for discovering new construction is building permits issued by various agencies. Additionally, staff appraisers discover construction activity while they are working their assigned areas of the county. Occasionally, the information is supplied on business property statements.

In addition to reviewing the typical new construction program in Napa County, we reviewed their program for assessing replacement grapevines as a result of the plylloxera infestation.

2. Building Permit Process

It is important for an appraiser to be aware of any building permit issued for a particular property, whether the resulting construction is assessable or not. The appraiser needs a record of all prior permit information to help make informed judgments about current condition, quality, and market value.

Permits are received from five issuing agencies: the County of Napa and the cities of Napa, St. Helena, Calistoga, and American Canyon. The town of Yountville contracts with Napa County to issue construction permits in its jurisdiction. The County Department of Environmental Management issues permits for wells and waste disposal systems. Annually, these agencies issue approximately 1,400 permits.

The permits received by the assessor's office are processed by an assessment clerk. The processing consists of first screening permits for nonappraisable new construction, e.g., reroofing, water heater replacement, termite repair. Then the assessment clerk verifies the assessor's parcel number on the remaining permits and keys the relevant data (identification code, permit number, date issued, type of work to be performed) into the computer system. Once the permit data has been received and entered, the computer program produces a worksheet for each affected parcel. The worksheet is attached to the parcel's appraisal records and placed in a to-be-worked file.

The county building department recently implemented an automated on-line permit-issuing process that is fully accessible by the assessor's office. The assessor's staff can now access the database used by the county building department.

We believe that the building permit processing system, procedures and controls used within the assessor's office are quite effective. We commend the assessor and his staff for a very well run program.

3. Leasehold Improvements

Leasehold improvements are improvements located on land owned by someone other than the owner of the improvements. Improvements of this type may vary from simple tenant improvements, such as store fronts, interior finish, and partitions, to complete buildings.

Leasehold improvements may be assessed on the secured roll to the land owner or the unsecured roll to the tenant.

A section of the Board-prescribed business property statement (Schedule B of Form 571-L) is reserved for reporting of costs expended by tenants for improvements to rented premises (land and buildings) where they operate their business, trade, or profession. The auditor-appraisers in the business property section review reported costs on Schedule B of the business property statement (BPS) for assessable tenant improvements; when they are present, the Schedule B is copied and the copy is forwarded to the real property section.

Currently in Napa County, the real property section of the assessor's office has the responsibility for valuing the structural improvements reported on the business property statement. Other reported tenant improvements are enrolled by the business property section. Our review of the coordination between the two sections revealed no major problems.

4. Replacement Grapevines

Section 53(b), as amended January 1, 1993, permits a county board of supervisors to enact an ordinance that allows partial property tax relief for grapevines infested with the phylloxera disease. On October 12, 1993, the Napa County Board of Supervisors adopted Ordinance No. 1048 exclusively for that purpose.

In essence, the ordinance permits the assessor to value replacement grapevines via the following method. When grapevines that are less than 15 years old are removed solely as a result of phylloxera infestation, and when substantially equivalent grapevines are planted on the same parcel as the removed grapevines, the initial base year value for the replacement grapevines shall be the base year value of the removed grapevines factored to the lien date of the first taxable year of the replacement vines. The reduction in value can only apply if the County Agricultural Commissioner certifies that phylloxera infestation is the sole cause necessitating removal of the existing grapevines.

To augment the processing of the applications for reductions due to the phylloxera problems, the assessor has drafted a procedure for the staff to follow. This procedural document provides detailed steps that guides application processing.

We reviewed three properties where applications for reductions due to the infestation were made. All of the properties reviewed are in conformity to the ordinance and procedures documents.

5. Declines in Value

Section 51 requires the assessor to value taxable real property at the lesser of either its base year value, factored annually for inflation, or its current market value, as defined in section 110.

For the 1996-97 assessment roll year, the assessor reduced over 3,800 properties taxable values due to declines in market value. The assessor's office has actively attempted to identify those properties that have declined in market value, rather than waiting for the taxpayers to notify the assessor.

Napa County real estate values have been impacted to a certain degree by the recent general recession in California's economy. The properties in Napa County most affected by the recession have been single-family residences and condominiums transferred during the last five years.

The assessor relies on various methods to identify possible declines in value, including both taxpayer complaints and the appraisers' continual review of their assigned geographic areas. Taxpayer requests for reductions are usually made by letter. Local newspaper articles and radio commentaries inform taxpayers to contact the assessor's office if they believe that their assessments exceed the current market value of their properties.

The assessor and his staff have done a commendable job of monitoring property value declines within the county.

D. SPECIAL PROPERTY TYPES AND PROCEDURES

1. California Land Conservation Act

An agricultural preserve is established by contract between a landowner and the county, pursuant to the California Land Conservation Act of 1965 (Williamson Act). Lands under contract are assessed at the lowest of the value of the agricultural income-producing ability, including any compatible use income (e. g., hunting), the current market value, or the factored base year value as defined in section 110.1 of the Revenue and Taxation Code.

For the 1997-1998 lien date, Napa County had 67,343 acres encumbered by California Land Conservation Act (CLCA) contracts covering 627 parcels. Approximately 21 parcels are in nonrenewal status and are being valued correctly by the assessor. Most of the property under CLCA contract in Napa County is planted in wine grapes.

The agricultural preserve assessment program is completely computerized, except for the annual recalculation of nonrenewal values which are still being calculated manually. Our review of the restricted land and living improvement values indicate that the assessor's computerized CLCA program is adequate. One appraiser III runs the program and does an excellent job. All of the CLCA records we reviewed are well maintained with excellent documentation.

Since our last assessment practices survey of Napa County in 1993, several improvements have been made to the agricultural properties assessment program for both restricted and non-restricted properties. The assessor and his staff should be commended for implementing these changes.

First, the computer program, modeled after the Kings County program, has been customized and updated to meet the current needs for the Napa County assessment program. This program calculates a market value for each parcel and enrolls the lowest of the CLCA value, factored base year value, or market value for each parcel.

Another improvement that the assessor has implemented is to maintain a database for all vineyard properties throughout the county. This database identifies and tracks varieties of planted vines for each parcel, and it generates an annual report displaying current market value (CMV) for non-living improvements (NLI) for each vineyard parcel along with the most appropriate of either the FBYV or CMV for the vines. The report alerts the appraisal staff when various blocks of vines come off exemption status, or are removed, so they may be valued and enrolled (or removed) for assessment purposes.

In addition, the appraisal staff can now generate an annual NLI cost spreadsheet that shows current costs for non-living vineyard improvements. This spreadsheet reflects typical average costs for non-living improvements as reported by growers for the past year for new vineyards. All vineyard owners are surveyed, not just those owning CLCA restricted vineyards, in order to achieve a better indicator of typical new construction costs countywide.

In our previous survey, we urged the assessor to treat acreage used as reservoirs the same as other CLCA land. This has since been implemented. We also suggested that a tax component be included in the yield rate utilized for charges against income for nonliving improvements. This also has been implemented by adding a tax component field to this portion of the computer program.

These improvements greatly assist the appraisal staff in the performance of their appraisal duties and further enhance the credibility of the agricultural property assessment program. Rent, production, and expense figures used are obtained from the Napa County Annual Crop Report, California Final Grape Crush Report, and questionnaires that are mailed to property owners. These questionnaires request rental, production, and expense figures.

The following suggestion is intended to improve an already efficient and effective CLCA property program.

RECOMMENDATION 3: Revise the procedures for assessing California Land Conservation Act (CLCA) properties by assigning a commercial economic rent to winery sites.

In our prior survey report, we recommended that the appraisal staff value compatible use commercial sites on restricted property by capitalizing an economic rent for the site by the open-space capitalization rate. Instead, the appraisal staff continues to appraise that portion of a restricted property used by a winery by assigning a commercial site value as the base year value. Then these base values are indexed and added to the restricted land value each year.

We repeat this recommendation. We refer the staff to the Assessors' Handbook Section 521, *Assessment of Agricultural and Open-Space Properties*, pages II-13 to II-16 for guidance on this matter.

2. Taxable Possessory Interests

Taxable possessory interests are private property rights in government owned real property. The term "possessory interest," as it is used for property taxation purposes in California, includes either the possession or the right to possession of real property when fee title is held by a government agency.

There are 268 taxable possessory interests on the Napa County assessment roll. A form letter is used for annual inquiries to government agencies. Some of the government agencies presently being contacted are cities, school districts, Napa County Airport, fairgrounds, Veterans Home of California, U.S. Bureau of Reclamation, State Parks and Recreation, and Napa State Hospital.

The county has a list identifying government agencies. From this list they send out a questionnaire requesting name and address of tenant, address of property, description of property, current rents, and other lease information. When the questionnaires are returned, the appraiser uses the information to calculate the value of the possessory interest. It is reviewed by the chief appraiser before final enrollment.

Our review of randomly selected possessory interest assessments indicates that the most used method of valuation is the direct capitalization of actual reported income. Our review indicated that possessory interests assessments are valued according to section 61 (b).

We are very impressed with the aggressive, thorough approach taken by the assessor's staff in their endeavor to maintain an excellent possessory interest assessment program. We offer only one recommendation, and it is repeated from our last survey.

RECOMMENDATION 4: Assess all taxable possessory interests in property owned by the agricultural district fair and the county fair.

There are two fairgrounds in Napa County. One fairground is located in Calistoga and is operated by the county for the annual county fair and auto racing. The other, the Napa County Fair, is owned and operated by the 25th Agricultural District, State Division of Fairs and Exposition and is located in the city of Napa, which also hosts an annual fair in the summertime.

According to our research, there are several private uses of government owned land and buildings at both locations that are sufficiently durable, beneficial, exclusive, and independent to warrant assessment as taxable possessory interests. To date, the possessory interests that have been assessed are comprised of five at the annual county fair and 15 at the Napa County Fair. Our investigation indicates that there may be more taxable interests.

Although the government agencies, in most cases, issue permits on a year-to-year use basis, many permittees have returned for several years and appear to have durable interests. The short-term rights are valuable, as indicated by the contract rents paid.

We recommend that the appraisal staff investigate private uses of public property at both fairgrounds. When such uses qualify as possessory interests, they should be valued and enrolled as soon as possible.

3. Taxable Government-Owned Property

The Constitution of California exempts from taxation property owned by a local government except lands and the improvements thereon that are located outside its boundaries and that were subject to taxation at the time of acquisition (article XIII, sections 3 and 11). Taxable government-owned properties are commonly referred to as section 11 properties and must be assessed in accordance with the procedures specified in article XIII, section 11 of the California Constitution.

The California Supreme Court decided in *City and County of San Francisco County of San Mateo et al.*, (l995) 10 Cal. 4th 554 that section 11 properties are also subject to the provisions of article XIIIA. The 1975 roll value, which was the lower of the fair market value or the l967 assessed value times the section 11 factor, became the base year value for these properties. The taxable value of the land now must be the lowest of (1) the l967 assessed value adjusted by a factor supplied annually by the State Board of Equalization (section 11 value), (2) the current fair market value, or (3) the article XIII A factored base year value.

In addition, an article XIII A base year value is established for any improvement that was taxable when acquired. Subsequently, the assessor enrolls the lower of the factored base year value or the current market value. Improvements constructed subsequent to acquisition are exempt unless a structure replaces a taxable one that existed prior to acquisition by the agency. In that case, the taxable value of the replacement cannot exceed the highest taxable value ever used for the replaced structure.

Napa County assesses 57 section 11 properties owned by six local government agencies. One appraiser is responsible for all the section 11 properties. Our review of the 57 parcels indicated that they are all in conformity.

All folders for the section 11 properties are segregated into separate files titled "government owned properties." A master file lists all 57 properties by three different categories: market value, section 11 value, and article XIII A value. In order to determine which of these approaches to enroll, a comparison is made and the lowest of the three value approaches is selected. The article XIII A value was the lowest value for 41 of the parcels, the section 11 value for 15 of the parcels, and the market value for one of the parcels.

The assessor is to be commended for acting promptly to implement our l993 recommendation to properly assess properties subject to the provisions of article XIII section 11 of the California Constitution.

SUGGESTION 4: Improve ownership identification of real property owned by governmental agencies.

Napa County has approximately 865 land parcels owned by governmental agencies, many of which are listed under general ownership titles, such as USA, State of California, Napa County. Such general titles do not identify which specific federal, state, or local agency controls the use of the property. Many of the ownerships identified in this manner predate the formation of the county in l850. Over the years very little effort has been made to identify the specific government agency that controls the use of the property. Because of increased private use of government owned property, proper identification of the controlling governmental agency and the designated use of the parcel are essential to discovery of potential possessory interest assessments.

In our prior report, we suggested that the assessor identify the specific governmental agencies that manage the use of parcels listed under the general title. Once this identification is made, the agencies should be contacted to establish: (1) the designated use of the properties; (2) where and to whom the assessor’s annual letter pertaining to leases should be sent; and (3) where and to whom the bills for in-lieu fees, property taxes, or possessory interest assessments should be remitted. We repeat this suggestion.

4. Manufactured Housing

Manufactured homes subject to local property taxation are assessed according to sections 5800 through 5842, referred to as “The Manufactured Home Property Tax Law.” This self-contained section of law applies many of the principles of article XIII A of the California Constitution to the assessment of manufactured homes. Briefly, manufactured homes that are assessed subject to this law: (1) are assessed on the secured roll; (2) receive a tax bill payable in two installments; (3) are subject to supplemental assessments (except in the case of voluntary conversion from vehicle fees to local property tax); (4) have a factored base year value; (5) are eligible for decline in value and disaster relief; (6) may receive the Homeowners’ exemption; and (7) qualify as original property for the purposes of base year value transfers (Propositions 58/60/90/110). In 1992, the law specifically required the classification of manufactured homes as personal property.

The assessment of manufactured homes in Napa County is currently the responsibility of the real property section. Manufactured homes comprise only a small portion of the assessor’s workload in Napa County. There are 1,184 manufactured homes currently on the tax roll with a total assessed total value of $37,706,835. The majority of the manufactured homes are located within the county’s 44 manufactured home parks.

Section 5803(b) prohibits an assessor from including in the assessment of a manufactured home any portion of value attributable to the site. To ensure that site influence is not included when calculating taxable value, section 5803(b) requires the assessor to take into consideration the prices listed in recognized value guides for manufactured homes. The appraisal staff uses value indicators derived from the *Manufactured Housing Appraisal Guide* (NADA), selling price, and replacement costs factors furnished by the Board to reappraise a manufactured home subject to a change of ownership. By comparing the information, the appraisal staff is able to determine the extent to which site influenced the prices paid for homes in the various parks in Napa County. In almost all manufactured home transfers, the value enrolled as the base year value is based on either NADA or Board value indicators.

In general, the manufactured homes assessment program is well-administered. Discovery procedures are good, site values are considered when there is a necessity to appraise manufactured homes that have changed ownership, and the files are complete and well-maintained. Manufactured homes are correctly classified and enrolled as personal property, and supplemental assessments for manufactured homes are correctly processed. Declines in value for manufactured homes are processed based on assessee request. However, we believe that there is one area that the assessor may want to review.

The taxable value of a manufactured home is the lesser of (1) its base year value compounded annually by the inflation factor (the "factored base year value") or (2) its full cash (market) value (section 5813).

The assessor does not develop an annual factored base year value for manufactured homes. Interviews with the assessor's staff disclosed that is the office policy, and that it was founded on their belief that the values of manufactured homes in the county appeared to be declining.

In order to ensure that the appropriate taxable value is enrolled for a manufactured home, we urge that the assessor's office track the factored base year value, compare this with the full cash value, and enroll the lower of the two.

5. <u>Water Companies</u>

Water company properties assessed on local tax rolls may be either municipal or district water systems on taxable government-owned land (article XIII, section 11 of the California Constitution), private water companies regulated or unregulated by the California Public Utilities Commission (CPUC), or mutual water company associations. Each type presents different assessment problems.

Municipal Water Systems

The Constitution of California exempts from taxation property owned by a local government within its boundaries (article XIII, section 3(b) of the California Constitution). This includes property owned by city water departments within city limits or water districts located within district boundaries, When the water system is located outside of the government agency's boundaries, this exemption does not apply. In those cases article XIII, section 11 of the California Constitution provides that publicity owned water system property located outside its boundaries is taxable if it was taxable at the time it was acquired by the city or district.

We found the parcels owned by the municipal water systems located within the city limits or district boundaries to be assessed correctly. The parcels were exempt from taxation under article XIII, section 3(b) of the California Constitution.

Mutual Water Companies

A mutual water company is a private association created for the purpose of providing water at cost, to be used primarily by its stockholders or members. The association, when incorporated, can enter into contracts, incur obligations, own property, and issue stock. However, if not incorporated, it can only do these things in the names of the members. Corporations organized for mutual purposes are not subject to regulation by the California Public Utility Commission unless they deliver water for compensation to persons other than stockholders and members.

From the records maintained by the county appraisal staff, we were able to identify four mutual water companies in Napa County. We found that the property of the mutual water companies was included in the assessments of the lots that they serve.

Private Water Companies Regulated by the California Public Utilities Commission

Private water companies are privately owned utilities in business to earn a profit from the sale of water. These private water companies are regulated by the CPUC. Regulated water companies are required to submit financial reports annually to the CPUC. The CPUC regulates the rates charged by private water companies, with profits being limited to a return on the companies' investments. Because the market values of these properties are tied directly to regulated rates, current market value may be less than a water company's factored base year value, making it necessary to annually compare market value as of the lien date to the factored base year value and enroll the lower as the taxable value.

There were two regulated private water companies in Napa County. One of the water companies was purchased on February 27, 1996 by the City of Napa and is no longer taxable. The other regulated private water company was involved in a change in ownership on March 29, l996. The assessor is in the process of gathering information to value this change in ownership.

Private Water Companies Not Regulated by the California Public Utilities Commission

Unregulated water companies are similar to regulated water companies in that they are usually owned by individuals or corporations and are operated for profit. Unregulated private water companies may be found serving manufactured home parks, resorts, campsites, etc.

There are 19 properties listed by the State's Office of Drinking Water as private water companies in Napa County. The assessor also receives a listing from the State Department of Health Services that contains 118 water users in the county. We randomly reviewed the assessment of water companies contained on these lists to ensure proper assessment.

Based on our current review, the assessor's staff does a commendable job in valuing water companies. Their records are current and well documented.

6. Mineral Properties

Napa County has two major mineral properties within its jurisdiction: the Homestake Gold Mine and SYAR's aggregate operation. We reviewed the property records and inspected both properties.

RECOMMENDATION 5: Revise the mineral property program by: (1) using the appropriate discount rate to capitalize income; and (2) developing current market value for decline in value comparison.

Discount Rate

The county's calculation of the band of investment method for deriving the discount rate contains data inconsistent with the investment horizon of the property being valued. The debt ratio used by the county doesn't appear to be based on current financial information available relative to the gold and silver extraction industry. Information from the Ibbotson Associates *Cost of Capital* for 1996 indicates the average capital structure for gold and silver extraction companies is 8.3 percent debt and 91.7 percent equity. The assessor uses 74.3 percent debt and 25.7 percent equity.

In addition, the yield components used in the band of investment do not appear appropriate. The county's rate of return for debt is based on the London Interbank Offered Rate (LIBOR). It represents the rate charged by international banks for very short term (overnight) loans to other banks to satisfy reserve requirements. It is similar to the Federal Reserve Board discount rate and is not appropriate for band of investment calculations based on long term results.

We recommend that the assessor review the data used in the band of investment method and select those that would be most appropriate for the property type.

Decline in Value

Section 469 of Title 18 of the California Code of Regulations (Rule 469) requires that counties make a comparison of the current market value of a mineral property against its *adjusted* base year value and enroll the lower value. Because mineral properties are a wasting asset, the base year value needs to be adjusted each year to account for depletion of reserves on the property. Even with this adjustment, the fluctuating nature of mineral commodity prices makes it necessary to compare the current market value of the property against the adjusted base year value.

The assessor uses the royalty method of determining the value of the aggregate property in its jurisdiction. Each year the assessor has made base year adjustments to account for depletion of the mineral reserves. However, no comparison is made between the adjusted base year value and the current market value of the property to determine the taxable value. The current market value is also needed to properly value any additions to the reserve base. Rule 469 provides that new reserves are added to the base year value at their current market value.

The assessor's staff does not develop current market values for comparison against the adjusted base year values for mineral properties. A review of the prices reported on the lien date by the operator for the various materials extracted shows a great deal of price fluctuation for some products from one year to the next. These price fluctuations could have substantial impact on the current market value of the property, causing the value to change dramatically. Therefore, we recommend that the assessor's staff calculate a current market value for all mineral properties each year.

Property Tax Rule 469 Worksheet

SUGGESTION 5: Use a Property Tax Rule 469 worksheet to keep track of property allocation among improvements, mineral rights, and personal property.

The assessor's staff currently enter the adjustment to the mineral rights value on a running summary of the reserves. No determination is evident in the appraisal file of the current market value of the property or of any decline in value determinations.

To assist in tracking property values from one year to the next, we suggest that the Napa County appraisers use a worksheet similar to that found on pages 10-12 and 10-13 of Assessors' Handbook 560, *Assessment of Mining Properties*. This two-page worksheet tracks all of the information needed to determine the enrolled value of a property, as well as providing a quick reference point for the next year's calculations. This worksheet is only offered as a suggestion of how to track the component numbers of a mineral property and can be modified to meet the county's requirements.

IV. BUSINESS PROPERTY PROGRAM

A. INTRODUCTION

The business property section of the Napa County Assessor's Office is responsible for annually processing more than 5,000 property statements and for appraising more than 1,600 pleasure boats, five documented vessels, and 280 general aircraft. The business property section must also audit a variety of commercial, industrial, and agricultural accounts. The program tasks are accomplished by three auditor-appraisers (who report directly to the chief appraiser) and one assessment clerk. This level of staffing is unchanged from our last survey report in 1993.

Whereas the level of staffing has remained unchanged since our last survey, the workload has increased. Consequently, they are not completing all the required mandatory audits.

The business property staff are highly professional and well trained and they use very good appraisal and auditing procedures. The assessor has designated some of the AB 818 funds for audit staff overtime, additional out-of-state cooperative audits, and for hiring an auditor-appraiser on a contract audit basis to help bring the mandatory audit program into compliance with section 469. This money will provide a temporary solution for catching up on mandatory audits. However, for the future, a more permanent solution must be found.

B. AUDIT PROGRAM

The verification of data submitted on the annual property statement is accomplished through the audit program. An audit is a verification process that may be either simple or quite complex. Although the depth of individual audits may vary, certain steps must be followed in every audit to ascertain the validity of reported figures and document what was done during the audit.

The business property section uses the Megabyte System to process annual business property statements but uses a separate software program for their audits. They refer to it as the "Griffin" program. Written in Microsoft Excel, it works well for them. It was first used on audits during the latter part of the 1996-97 year and has saved time in processing cost data into value. It can calculate values for costs accumulated by year of acquisition as well as calculate values on individual items of equipment. In the initial year of its use, when data were available, all detailed asset information had to be entered into the system. This task was time consuming, but in future audits of the same taxpayer, only changes (adds and deletes) will need to be entered. Using this new software program, the staff anticipates time savings that can be used for doing more audits.

Finished audits are reviewed by the other two auditor-appraisers before forwarding the audits to the chief appraiser, who reviews them and passes them on to the assessor for final review. This appears to be an inefficient use of audit resource. We believe that a review by a second auditor-appraiser would be sufficient.

1. Mandatory Audit Program

Section 469 requires an audit of the books and records of businesses at least once every four years ("mandatory audits") when locally assessable trade fixtures and tangible business personal property have a full value of $300,000 or more. Section 532 requires assessments to be made within four years after July 1 of the assessment year in which the property escaped taxation or was underassessed. If the assessor cannot complete a mandatory audit (or any other audit) within the prescribed time limit, he or she may request from the taxpayer an extension of time to complete the audit. This can be accomplished by having the taxpayer sign a waiver to extend the statute of limitations, as authorized by section 532.1.

RECOMMENDATION 6: Bring the mandatory audit program to current status.

The mandatory audit program is one of the main functions of the business property section because it verifies the reporting on the largest business property accounts. Napa County's audit program is not current. When mandatory audits are not completed on time, potential escaped assessments are lost if waivers of the statute of limitations are not obtained.

There are 260 large accounts over $300,000 on the mandatory audit listing. Approximately 65 accounts must be audited each year to keep current. This level of production has not been achieved and the mandatory audit program is behind. In 1995-96, 34 mandatory audits were completed. In 1996-97, 55 mandatory audits were completed. As of June 1, 1997, it was necessary to send out 70 waivers to protect the right to audit for the year of 1993. Not all of these waivers will be signed by the taxpayers; there is a history of many accounts failing to return signed waivers.

Actions have been taken to reduce the backlog of audits. Overtime was authorized for the fiscal years of 1995/1996 and 1996/1997. The Griffin program was implemented in late 1996/97. Plans are in place to increase participation in the cooperative county audit program and assign more out-of-state mandatory audits to auditor-appraisers from other counties who will be auditing the same accounts throughout the country.

The county participates in AB 818 and designated about 8 percent in 1996 and 14 percent in 1997 of the funds from the program to be used to reduce the backlog of both mandatory and nonmandatory audits. For the fiscal year 1996/97, funds were designated for audit staff overtime, additional out-of-state cooperative audits, and for hiring an auditor-appraiser on a contract basis to help bring the mandatory audit program in compliance with section 469. So far, only the overtime part of the plan has been implemented. This has been helpful, but it has not brought the mandatory audit program to a current status.

The assessor should fill the contract auditor-appraiser position as quickly as possible and continue to fund it for a period of time sufficient to eliminate the backlog of mandatory audits. We recommend the assessor and his staff fulfill the statutory requirements by identifying and performing all mandatory audits as required.

2. Nonmandatory Audits

SUGGESTION 6: Initiate a nonmandatory audit program.

The audit program is the most important function of the business property section in an assessor's office. Although there is no legal requirement to audit small businesses, no auditing program is complete unless it includes a representative sampling of all sizes and types of accounts. Taxpayers' reporting errors or omissions in these nonmandatory accounts will not be corrected unless some problem triggers an audit. The high possibility of an audit promotes good reporting by taxpayers, so every class of account should be targeted for audit coverage.

Outside of a problem triggering an audit, the assessor does not have a nonmandatory audit program. Consequently, property owners who are excepted from the four-year audit requirement have been virtually audit-free. There are over 2,500 unsecured nonmandatory accounts. During 1995-96, 16 nonmandatory audits were completed. In 1996-97, four more were done. As of June 1997, ten have been targeted for audit.

We suggest that the assessor initiate a nonmandatory audit program to ensure good reporting by all taxpayers.

3. Staffing

SUGGESTION 7: Revise staff assignments and audit procedures so that auditor-appraisers can complete more audits.

We believe that the current staffing level of auditor-appraisers is adequate to complete the mandatory auditing requirements of section 469 if they are relieved from routine tasks that do not require a certified auditor-appraiser. The current work assignments have created a backlog of mandatory audits. The assessor is attempting to address the backlog problem by designating funds to hire a temporary contract auditor, to allow staff overtime, and to increase the use of the county cooperative audit program.

However, a long-term solution is needed to achieve an audit program that is in compliance with the law. The business property work assignments could be revised to concentrate auditor-appraiser time on auditing both mandatory and nonmandatory accounts. We suggest the following:

(1) Assign a non-certified person the routine portions of processing business property statements.

(2) Assign the support tasks of an audit, e.g., pre-audit gathering of files and data, preparing and mailing notice of audit letters, and pre-audit entering of data into the "Griffin" audit software program to a non-certified person.

In addition, we suggest the following changes to the audit procedures to enhance their audit program:

(1) Assign the annual audit workload to the auditor-appraisers as soon as possible. This allows the audit staff to collectively and individually set audit schedules and commit to production goals.

(2) Complete a pre-audit review of the taxpayer's assessment file, business property statements, and other documents to define the scope of the audit.

We suggest that the assessor implement these changes to ensure that auditor-appraisers spend more time doing audits and thus achieve a long-term solution to eliminate the serious backlog in the mandatory audit program.

C. BUSINESS PROPERTY VALUATION

1. Classification

The assessor's staff has done a commendable job in improving the procedures and methods used to classify and value the production, processing, and storage equipment of wineries. Knowledge acquired from their detailed audit and analysis of winery equipment on an item by item basis will improve the quality of future valuations and classifications. As time permits during mandatory audits, the staff should gather data on other business properties to use in improving the validity of improvement and personalty estimates of those businesses. However, we do have a recommendation on the staff's procedures for classifying fixtures and personalty.

RECOMMENDATION 7: Revise the procedure for classifying machinery and equipment.

The business property staff have in place a written procedure entitled: "Economic Life and Fixture Allocation Guidelines and Factor Tables" wherein typical lives are suggested for equipment used in commerce, industry, agriculture, and transportation. The procedure also suggests the percentage split between fixed equipment and personalty for the various types of businesses.

These guidelines help achieve uniformity within these types of assessees. The guidelines are designed to assist in the selection of proper service lives and fixture allocation estimates. The procedure provides that the guidelines are not intended to be used as a substitute for good appraisal judgment and that any deviation from these guidelines should be documented on the property statement.

For certain types of businesses, the staff has been using a procedure in processing form 571-L that is different than that used by other counties. First, an auditor-appraiser decides on the percentage allocation in an asset category between fixtures and personal property. Second, costs by year of acquisition are divided into two columns on Schedule A according to the percentage split. One column is for fixtures, the other is for personalty. Next, a service life is selected for the fixture and generally a shorter life for the personalty. Then, index and percent good factors are combined for each of the two categories and calculations are made to arrive at an estimate of Replacement Cost Less Normal Depreciation (RCLND) for fixtures and an RCLND estimate for personalty.

This procedure differs from the usual method of assigning a composite life to the total group of assets, scheduling the costs by year of acquisition, calculating an RCLND estimate for the total, and then applying the classification split between fixtures and personalty to the total RCLND estimate.

The practice of segregating reported costs for machinery and equipment on the business property statement, Schedule A, by arbitrarily splitting them between fixtures and personalty, then assigning a different service life for each category, is flawed for several reasons:

(1) When asset costs are reported by year of acquisition, there is insufficient information available on the business property statement for the assessor to accurately classify those costs as either fixtures or personalty. Taxpayers are not required to report machinery and equipment item by item. Classification is the responsibility of the auditor-appraiser or appraiser.

(2) Assigning different lives to fixtures and personalty should be done only when there is specific identification, the individual assets are itemized, and there is sufficient description of each asset so the judgment can be made.

(3) The recommended index and percent good factors in section 581 of the Assessors' Handbook (AH 581) are considered to be composite factors and intended to be used on groups of assets.

Unless a taxpayer annually reports machinery and equipment assets item by item, with a sufficient description to determine whether it is an improvement or personalty, we recommend that the staff use a composite service life for the total group of assets and apply the fixture allocation to the RCLND estimate of the total group of assets.

2. Equipment Index Factors

Taxable values of equipment are typically derived from historical costs through the use of valuation factors. The valuation factors are the product of combining the price index factor and percent good factor. Accurate assessments of equipment depend on the proper choice and application of these price indices and percent good indices.

The Board annually publishes equipment index and percent good factors in AH 581 to help assessors in the valuation of business property and trade fixtures. Currently, this publication contains a total of 20 equipment index categories.

SUGGESTION 8: Use all of the Board's equipment index factors.

The business property staff use only four of 12 commercial equipment index categories and only one of 6 industrial equipment index categories when developing their valuation factors.

It is important that the business property staff carefully select the appropriate equipment index factor. Using only some of the available categories sacrifices accuracy for convenience. Although overall county totals may show only a small "bottom line" difference, the accuracy of individual assessments will be materially distorted. The result is inequitable treatment of individual taxpayers.

We therefore suggest that the assessor use all of the equipment index factor categories available for appraising business properties.

3. Direct Billing

Several California assessors use an assessment procedure called "direct billing" or "direct assessment." It is a method where certain low-value business accounts do not require annual business property statements. Instead, an assessment is made based on prior information. This billing system is suitable to small established businesses whose equipment and supplies remain fairly constant from one year to another. Examples of these types of businesses are small apartments, barber shops, beauty salons, launderettes, small cafes and restaurants, and professionals with small equipment holdings.

This procedure streamlines the annual appraisal process. It reduces the amount of paperwork for small businesses, reduces the number of property statements that must be processed by the assessor's staff, and allows the auditor-appraisers to concentrate on the audit program.

RECOMMENDATION 8: Require all taxpayers with tangible personal property costing $100,000 or more to file annual property statements as required by section 441.

Section 441 requires that each person owning taxable personal property, other than a manufactured home, having an aggregate cost of $100,000 or more shall file a property statement with the assessor. Because of this mandatory filing requirement, large accounts are not suitable for direct billing.

During our review of the county's direct billing program, we found several direct billing accounts where the total cost of personal property owned by the taxpayer exceeded $100,000. In each case, the assessment was for an individual location where the cost was less than $100,000, but the taxpayer owned personal property at other locations in the county. The errors occurred because the assessor's office assigns a separate business account for each location or branch of an assessee and the staff was not aware that the total personal property cost at all locations exceeded $100,000.

We recommend the assessor take steps to ensure that all taxpayers who own personal property that cost more than $100,000 are required to file property statements.

4. Business Property Statement Processing

Business property assessments are in part the result of data submitted by the taxpayers on the annual business property statement (Form 571-L). The more accurate the data that is reported by the taxpayers on the property statements, the more accurate the assessment roll will be.

For fiscal year 1996-97, the business property section processed 3,674 business property statements with a taxable value of $406,564,770. These statements are from a variety of properties such as general business, agricultural, financial institutions, and apartments. Excluded from this value are boat and aircraft values.

RECOMMENDATION 9: Revise the property statement processing program by: (1) using certified personnel for appraisals; and (2) using uniform application of service lives within similar business types.

Certified Personnel

In Napa County the processing of aircraft and boats is performed entirely by assessment clerks. These duties include reviewing the property statements for completeness and calculating the full cash value. The assessment clerk also enrolls the calculated value and makes any necessary roll corrections.

Subdivision (a) of section 670 mandates that “No person shall perform the duties or exercise the authority of an appraiser for property tax purposes as an employee of the state, any county or city and county, or city, either general law or chartered, unless he is the holder of a valid appraiser’s or advanced appraiser’s certificate issued by the State Board of Equalization.”

While we advocate the use of an assessment clerk in processing routine property statements, assessment clerks should not assume the duties, responsibilities, and authority of an appraiser. The authority to render value judgments is an appraiser’s.

We, therefore, recommend that the assessor and his staff discontinue the practice of having assessment clerks render value judgments in assessing aircraft and boats. This can be accomplished by having a certified person review the clerk’s work and accept responsibility for the values.

Service Lives

We reviewed 32 business property statements belonging to three major business classifications. Our review showed that there was inconsistency in the way the assessor’s staff processed property statements. The inconsistency is manifested by the different service lives used to assess similar business types.

Section 169 requires the Board to encourage uniform statewide appraisal and assessment practices. Standardization and consistency in the determination of service life are essential for effective, efficient, and equitable assessments among taxpayers.

Therefore, we recommend that the assessor instruct his staff to be uniform in the selection and application of the service lives used to value personal property and fixtures.

SUGGESTION 9: Improve the processing of property statements by reviewing business property appraisals prior to enrollment.

Most of the business personal property assessments enrolled are based upon information supplied by the taxpayer on their annual business property statement. The reported costs are converted to taxable value by multiplying the reported costs by price trend factors and percent good factors (usually combined into a valuation factor). To reduce errors and omissions in this process, most county assessors have initiated a program for an auditor-appraiser's review of property statements prior to enrollment.

In Napa County, the information on the property statements is entered into the computer system without any peer or supervising review. Although our brief review of the processing routine did not disclose many errors, it is very likely that mistakes can be made in the processing, e.g., incorrect factor code assigned, input error.

The overall quality of the business property assessment program would be improved if the business property section had a review procedure in place. A review procedure is an important component of a strong internal control system and provides reasonable assurance that the staff is following applicable laws and regulations as well as standards and procedures. It also allows the assessor to establish control over implementation of his plan and ensure his objectives are accomplished.

We suggest implementing a formal procedure requiring the auditor-appraisers to review large industrial and commercial property statements and to randomly review selected other property statements prior to final enrollment.

D. SPECIFIC PROPERTY TYPES

1. Major Property

Our review of the operations of an assessor's office included a concentrated effort on some of the major types of properties located within the county. Since this county has an abundant number of wineries and wine-related manufacturing concerns, our selection was made primarily from this industry

Generally, we found that the assessor's staff does a good job in their valuation of the major wineries located in the county. We observed that in most instances the staff have gone into great detail to analyze, process, and formulate a value conclusion based on sound appraisal judgment.

One of the wine production facilities reviewed consisted of an assessment of over $41 million with a variance in taxable value of approximately 5 per cent. The variance in value is a result of comparing the assessor's value with the Board's previous sampling program value. This 5 per cent variance is within the sampling program's tolerance level and indicates no fundamental problem with the county's program.

The county appraiser noted each item of new construction, classified every item as taxable or non-taxable new construction, and made reference to the method of valuation. As an example each line item contains an entry such as "Historical cost used" or "Marshall-Swift cost used." This type of detail analysis is impressive and reflects the fact that the county appraiser has considered the many facets of the cost approach method of valuation when processing new construction activity.

Napa County has the luxury of having many sources from which they can accumulate data on the cost of wineries and their component parts. Several new wineries have recently been constructed, providing the assessor's office an abundant amount of cost information.

We commend the assessor for maintaining a quality program in the assessment of wine-related properties.

2. Leased Equipment

One of the responsibilities of the business property section is the discovery and assessment of taxable leased equipment. The annual business property statement requests taxpayers to report all property in their possession but belonging to others. The name and address of the owner, the year of acquisition, the acquisition cost, and other relevant information are requested on the property statement. When leased equipment is reported by the lessee on the property statement, the staff checks to see whether the leasing company is an active account that would routinely receive a property statement. If not an active account, the lessor is sent the necessary forms and asked to file a property statement.

Property statements (Form 571-L) are sent to all known lessors. Both a physical check and a computerized balance check are used to cross-check information submitted by lessors and lessees. The system also provides information to determine when lessors meet the requirements that place them in a mandatory audit category. If a lessor does not report an item, referral slips are made for future follow-up.

Leased Equipment at Public Utilities

Section 19 of article XIII of the California Constitution provides for the Board to delegate to county assessors the duty to assess properties used but not owned by state assessees on which the property taxes are to be paid by local assessees. The property that is to be assessed locally is reported to the Board on Form V-600B via the public utilities annual property statement. Each year, Board staff send copies of the reports to the applicable county assessor's office advising that the equipment should be assessed by the county assessor.

In our previous survey, we suggested that the staff utilize all V-600B forms to discover and assess taxable property. The staff has implemented our suggestion and is reviewing each Form V-600B when received. They determine whether the leased property has been assessed, contact the lessors if it has not been reported, and make appropriate assessments.

We reviewed the procedures for assessing leased equipment and found that the program is well managed and that effective procedures are in place for the discovery and assessment of leased equipment.

3. General Aircraft

Section 5363 provides that the market value of aircraft shall be determined in accordance with the standards and guides to the market value of aircraft prescribed by the Board. Prior to the 1997 lien date, the Board had published aircraft valuation data each year in AH 587, *Aircraft Valuation Data.* The Board no longer publishes this book and recommends instead that counties determine market value by referring to a commercially published aircraft price guide.

On January 8, 1997, the Board approved the *Aircraft Bluebook Price Digest* as the primary guide for valuing aircraft. In cases where aircraft are not listed in this price guide, the Board approved use of the *Vref Aircraft Value Reference*. The Board further directed that the listed retail values shall be reduced by 10 percent to provide reasonable estimates of fair market values for aircraft in truly average condition on the lien date. An adjustment for overall condition of the aircraft, additional or special equipment, airframe hours, and engine hours since the last overhaul, must be made to these book prices to determine correct market value. The values of newer aircraft are most affected by the presence or lack of optional equipment, while the values of older aircraft are influenced more by the condition of the aircraft.

The staff of the aircraft unit of the Napa County Assessor's Office assessed 286 general aircraft for the 1996-97 tax roll with a total assessed value of $44,011,145. The primary sources of discovery of assessable aircraft are the Airport Manager Reports, Monthly Activity Listings provided by the State Board of Equalization, and referrals from other counties and aircraft owners.

RECOMMENDATION 10: Improve general aircraft assessment procedures by: (1) conducting annual field inspections; and (2) making engine hour adjustments consistently.

Field Inspections

The assessor's staff utilize and rely primarily on the listing of aircraft as provided by the county airport manager. This listing, which has a January 1 cut-off date, is submitted annually to the assessor. The current listing is compared to the prior year's listing and changes between the two lists are noted.

New and old aircraft owners whose names appear on the current list are sent an aircraft questionnaire entitled "Aircraft Owner's Report." This questionnaire requests information regarding the type of aircraft, amount of purchase price, number of engine hours, any extra communication and navigational equipment, and the situs of the aircraft. With this information, the staff uses the appropriate figure from the *Aircraft Bluebook Price Digest* as the starting point in the aircraft's valuation. Reductions are then made for excess engine hours if the taxpayer provides the information; otherwise, the appraiser processes the unadjusted value and enrolls the figure. Information as to the condition of the aircraft is not specifically requested but may be provided by the taxpayer under the "Remarks" column.

The assessor's office has not performed any field inspection for the past four years. Field inspections can confirm the condition of the aircraft and verify the installation of any new equipment. It also serves to verify the accuracy and reliability of the listing of aircraft provided by the county airport manager. The importance of field inspections cannot be overstated.

We recommend that annual field inspections for general aircraft be implemented and made a permanent part of the assessor's general aircraft appraisal procedure.

Engine Overhaul Adjustment.

Our review of aircraft files revealed that the staff does make downward adjustments to reduce aircraft values. On several aircraft assessments, where values should have been adjusted upward, no adjustments were made. The importance of adjusting aircraft values when the engine hours differ materially from mid-time before recommended overhaul is emphasized in Letter to Assessors 97/03. The adjustment to be made goes both ways, either upward or downward depending on whether engine hours are either more or less than the mid-time before recommended overhaul.

We therefore recommend that the assessor consider engine hour adjustments, not only to reflect a decrease, but also to reflect an increase in aircraft value from the book value. This change will bring office practice into conformity with the engine overhaul adjustment guide and will result in a more accurate and equitable assessment.

4. Vessels

The business property section of the assessor's office assessed 1,679 vessels for the 1996-97 tax roll with a total assessed value of $11,893,690. The primary sources of discovery are Department of Motor Vehicles (DMV) reports, marina lists, and referrals from other counties. An annual field canvass of the Lake Berryessa area is also in place as a tool of discovery.

Pleasure Boats

RECOMMENDATION 11: Upgrade the boat appraisal procedures by annually appraising pleasure boats at market value.

In Napa County, initial assessments of vessels are made at market value using the *National Automobile Dealers Association Small and Large Boat Appraisal Guide (NADA*). The assessment clerk enrolls the reported purchase price if it falls within the NADA value range. If the reported purchase price significantly differs from the NADA value range, the assessment clerk uses the low value in the value range of the guide. This conservative approach of choosing the low value in the value range of the guides is dictated by the "soft" market for boats.

Once the initial value is set, future assessments are annually reduced by 10 percent. While this simplifies the assessment process, it assumes a fixed depreciation rate for each boat which may or may not lead to market value. This arbitrary value reduction on all pleasure boats is merely an administrative convenience and is a substitute for actual market value appraisals.

The assessor's staff should consider using for valuation trends the method of categorizing pleasure boats into two groups (new and used), with six subgroups (powerboat, sailboat, inboard, onboard, inboard/outboard and jet ski) in each group. Trends in market values for these groups and subgroups could be determined by comparing published boat valuation guides for the current and previous year. Once trend factors were computed, they should be applied to all boats within each group and subgroup.

We recommend that the assessor's staff annually appraise all boats at market value using either a boat valuation guide or subdividing the boats into categories and developing individual adjustment factors based on market data.

SUGGESTION 10: Obtain access to DMV's vessel database.

Owners of pleasure boats are required to register their boats with the DMV. This state agency maintains a computer information file with the owner's name, address, boat type, class, and other pertinent information. When a boat owner sells or moves the boat to a new situs, DMV should be notified and subsequently updates this computer file. DMV sends periodic reports to the county assessor's office that list all boats registered in that particular county.

To facilitate tracking of boat owners and boat location, DMV permits assessor's offices to establish an on-line communications link that allows a Government Agency End User access to its data base. Having this access to the DMV database saves considerable staff time in determining the assessibility of pleasure boats.

At the time of our survey, the assessor's office was not connected to the DMV information system. Without this access, there are considerable delays at the assessor's office in determining the correct situs and ownership information on pleasure boats.

We suggest that the assessor, through the county data center, initiate the establishment of an on-line link with DMV. The application packet for hook-up can be directly obtained from DMV and there is no fee involved in filing this application.

Documented Vessels

Section 130 defines documented vessel as "Any vessel which is required to have and does have a valid marine document issued by the Bureau of Customs of the United States or any federal agency successor thereto, except documented yachts of the United States, or is registered with, or licensed by, the Department of Motor Vehicles."

Most county assessors prefer to group boat assessments in a separate section of the unsecured roll rather than intermingle them with other unsecured assessments. Documented vessels meeting the requirements of section 227 should be enrolled at the end of the boat section of the roll.

RECOMMENDATION 12: Revise documented vessel procedures by enrolling the assessed value on the regular assessment roll.

The current practice in the Napa County Assessor's Office is to enroll the assessment of documented vessels as a roll correction in the form of an escape assessment. This practice, in effect, creates an understatement of the total assessment roll since these escape assessments are made after the close of the regular assessment roll.

An important requirement for the preferential assessment of 4 percent is the timely filing of the Affidavit for Four Percent Assessment of Certain Vessels (AH 576E). This affidavit of eligibility must be filed by April 1 to qualify for the 96 percent exemption. All five documented vessel owners have filed their affidavits timely. As of April 1, or almost three months before the close of the regular roll, the assessor had the information necessary to make assessments on these vessels and have them enrolled prior to the close of the roll. For reasons not provided to us during our fieldwork, these documented vessels were not assessed and enrolled until a month after the close of the roll. We disapprove of the assessor's practice of enrolling the assessed values of documented vessels as escape assessments when in actuality they can be assessed earlier and be included on the total regular assessment roll.

We recommend that the assessor to discontinue the practice of enrolling the assessed values of documented vessels as escape assessments. He should instruct his staff to process all documented vessel appraisals timely and have their assessed values enrolled on the regular assessment roll.

5. Computers

The valuation of computers and related equipment (herein referred to as computers) has been a contested issue between taxpayers and assessors for the last few years. For the 1997 lien date, the Board issued Letter to Assessors 97/18 (dated April 2, 1997) containing the new valuation factors for the three tables similar to those provided in Letter to Assessors 96/27. The tables for small computers and mainframe computer systems represent a recalculation of the sales data that were used to calculate those categories for the 1996 lien date. The table for mid-range computers represents new factors based on all data accumulated to date. The Board reviewed all data presented by the Property Taxes Department staff, the California Assessors' Association, and representatives of the computer industry. The Board then authorized the publication of the computer valuation tables for the 1997 lien date.

Our review showed that for the 1997 lien date, the Napa County Assessor appropriately valued computers using the Board-recommended factors as contained in Letter to Assessors 97/18. We commend the assessor and his staff for following the Board's recommended valuation tables for non-production computers.

THE ASSESSMENT SAMPLING PROGRAM

The need for compliance with the laws, rules, and regulations governing the property tax system and related assessing activities is very important in today's fiscally stringent times. The importance of compliance is twofold. First, the statewide maximum tax rate is set at 1 percent of taxable value. Therefore, a reduction of local revenues occurs in direct proportion to any undervaluation of property. (It is not legally allowable to raise the tax rate to compensate for increased revenue needs.) Secondly, with a major portion of every property tax dollar statewide going to public schools, a reduction in available local property tax revenues has a direct impact on the State's General Fund, which must backfill any property tax shortfall.

The Board, in order to meet its constitutional and statutory obligations, focuses the assessment sampling program on a determination of the full value of locally taxable property and eventually its assessment level. The purpose of the Board's assessment sampling program is to review a representative sampling of the assessments making up the local assessment rolls, both secured and unsecured, to determine how effectively the assessor is identifying those properties subject to revaluation and how well he/she is performing the valuation function.

The assessment sampling program is conducted by the Board's County Property Tax Division (CPTD) on a five-year cycle and described as follows:

(1) A representative random sampling is drawn from both the secured and unsecured local assessment rolls for the counties to be surveyed.

(2) These assessments are stratified into three value strata, identified, and placed into one of five assessment categories, as follows:

   a. Base year properties -- those properties the county assessor has not reappraised for either an ownership change or new construction since the previous CPTD assessment sampling.

   b. Transferred properties -- those properties where a change in ownership was the most recent assessment activity since the previous CPTD assessment sampling.

   c. New construction -- those properties where the most recent assessment activity was new construction added since the previous CPTD assessment sampling.

   d. Non-Proposition 13 properties -- those properties not subject to the value restrictions of Article XIII A.

e. Unsecured properties -- those properties on the unsecured roll.

(3) From the assessment universe in each of these fifteen (five assessment types times three value strata) categories, a simple random sampling is drawn for field investigation which is sufficient in size to reflect the assessment practices within the county. (A simple nonstratified random sampling would cause the sample items to be concentrated in those areas with the largest number of properties and might not adequately represent all assessments of various types and values.) Because a separate sample is drawn from each of these assessment types and value categories, the sample from each category is not in the same proportion to the number of assessments in every category. This method of sample selection causes the raw sample, i.e., the "unexpanded" sample, to overrepresent some assessment types and underrepresent others. This apparent distortion in the raw sampling is eliminated by "expanding" the sample data; that is, the sample data in each category is multiplied by the ratio of the number of assessments in the particular category to the number of sample items selected from the category. Once the raw sampling data are expanded, the findings are proportional to the actual assessments on the assessment roll. Without this adjustment, the raw sampling would represent a distorted picture of the assessment practices. This expansion further converts the sampling results into a magnitude representative of the total assessed value in the county.

(4) The field investigation objectives are somewhat different in each category, for example:

a. Base year properties -- for those properties not reappraised since the previous CPTD assessment sampling: was the value properly factored forward (for the allowed inflation adjustment) to the roll being sampled? was there a change in ownership? was there new construction? or was there a decline in value?

b. Transferred properties -- for those properties where a change in ownership was the most recent assessment activity since the previous CPTD assessment sampling: do we concur that a reappraisal was needed? do we concur with the county assessor's new value? was the base year value trended forward (for the allowed inflation adjustment)? was there a subsequent ownership change? was there subsequent new construction? was there a decline in value?

c. New construction -- for those properties where the most recent assessment activity was new construction added since the previous CPTD assessment sampling: do we concur that the construction caused a reappraisal? do we concur with the value enrolled? was the base year amount trended forward properly (for the allowed inflation adjustment)? was there subsequent new construction? or was there a decline in value?

d. Non-Prop 13 properties -- for properties not covered by the value restrictions of Article XIII A, do we concur with the amount enrolled?

e. Unsecured properties -- for assessments enrolled on the unsecured roll, do we concur with the amount enrolled?

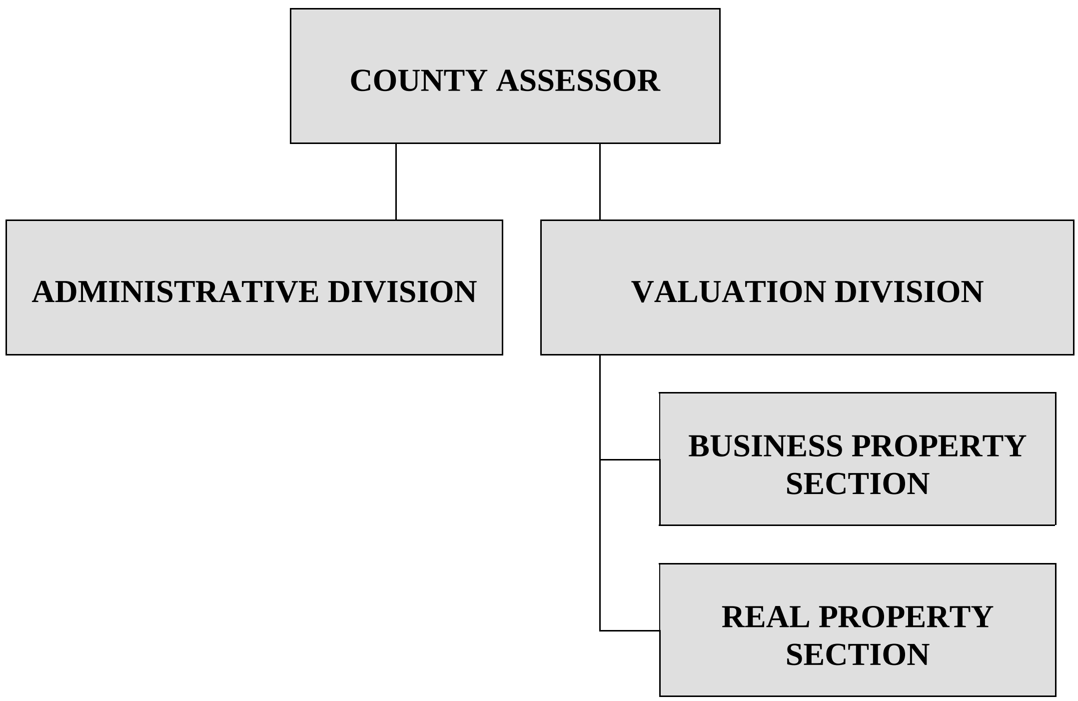
(5) The results of the field investigations are reported to the county assessor, and conferences are held to review individual sample items whenever the county assessor disagrees with the conclusions.

(6) The results of the sample are then expanded as described in (3) above. The expanded results are summarized according to the five assessment categories and by property type and are made available to the assessment practices survey team prior to the commencement of the survey.

One of the primary functions of the assessment practices survey team is to investigate areas of differences disclosed by the sampling survey data, determine the cause and significance of the differences, and recommend changes in procedures that will reduce or eliminate the problem area whenever the changes are cost effective or are required by legal mandate. Consequently, individual sample item value differences are frequently separated into segments when more than one problem is identified, and the results expanded and summarized according to the causes of the differences. Much of the support for the County Property Tax Division's recommendations in the form of fiscal and numerical impact is drawn from the expanded sample data, and statistics relating to specific problems have been incorporated in the text of this report.

Emphasis is placed on factors directly under the county assessor's control. Differences due to factors largely beyond the county assessor's control, such as (1) conflicting legal advice, (2) construction performed without building permits, (3) unrecorded transfer documents, (4) assessment appeals board decisions, and (5) factors requiring legislative solution are specifically identified in the text when these problems are reflected in the statistics.

NAPA COUNTY
OFFICE OF THE ASSESSOR
ORGANIZATIONAL CHART



ASSESSOR'S

RESPONSE

TO

BOARD'S

RECOMMENDATIONS

NAPA COUNTY ASSESSOR

JOHN TUTEUR
ASSESSOR

1127 FIRST ST ROOM 128 NAPA CA 94559-2931
PHONE 707.253.4466 FAX 707.253.6171

August 31, 1998

RECEIVED
SEP 04 1998
County Property Tax Division
State Board of Equalization

William B. Jackson, Chief
County Property Tax Division MIC 62
State Board of Equalization
PO BOX 942879
SACRAMENTO CA 94279-0062

Dear Mr. Jackson,

On behalf of the dedicated staff of this office, I want to acknowledge the favorable comments contained in the 1997 Napa County Assessment Practices Survey. Our responses to your specific recommendations are attached.

We appreciate the efficient and constructive manner in which your survey team conducted your review and the helpful assistance SBE staff has provided during this survey process.

Sincerely Yours,

John Tuteur
Napa County Assessor

RECOMMENDATION NO. 1

Revise the roll change procedures by: (1) citing the proper statutory provisions; and (2) indicating to the county auditor when section 506 interest is applicable. WE CONCUR

(1) We do have written procedures and exercise diligence in citing the appropriate code section when processing roll changes. We will review our procedures with staff.

(2) We exercise care in making 506 determinations and will review procedures with staff.

RECOMMENDATION NO. 2

Revise the procedures for processing changes in ownership by: (1) utilizing the date of change of control rather than the recording date; and (2) appraising all transfers of undivided ownership interests when the cumulative value of transfers of ownership exceeds $10,000 or more in any given year. WE CONCUR

(1) We will utilize the date of change in control when it can be determined.

(2) Regarding R&T 65.1, we do have a procedure in place and follow it when appropriate. In the case of the large ranch cited, we believe that the treatment of the property as a single unit with a factored base year value fairly represents the current market value of the property. The effort and cost of tracking 1800 undivided interests assessments would not lead to any more accurate or equitable value since we would only have to enroll a Proposition 8 decline in value should 1800 units total a factored base year value greater than current market. We will make periodic reviews of this property to insure that our existing methodology continues to track current market value.

RECOMMENDATION NO. 3

Revise the procedures for assessing California Land Conservation Act (CLCA) properties by assigning a commercial economic rent to winery sites. WE CONCUR

Our computer program allows us to establish various land categories to which an income can be assigned and the value calculated automatically using the CLCA capitalization rate. We will create several categories of winery land to represent the different areas of the county and customize the land rent figure for each category using amounts derived from industrial lands of appropriate comparability.

RECOMMENDATION NO. 4

Assess all taxable possessory interests in property owned by the agricultural district fair and the county fair. WE CONCUR

We had previously responded to the Board's concerns in 1993 by investigating and assessing interests that could be discovered at the fairgrounds such as carnivals and recurring shows and events. We have already expanded our list of assessees based on the suggestions made by the SBE appraiser. We will continue to work closely with the fairgrounds to discover new assessable interests or existing interests that have not previously come to our attention.

RECOMMENDATION NO. 5

Revise the mineral property program by: (1) using the appropriate discount rate to capitalize income; and (2) developing current market value for decline in value comparison.

(1) Mineral property valuations are very complex and do require an intimate knowledge of the individual properties. The sole gold extraction property in Napa County has depleted its economic reserves and is processing from stockpiled material for a short period of years. Given the SBE ruling that stockpiles are inventory, the mine no longer has any ore reserves leaving the land in a Proposition 8 decline in value status without need for researching an appropriate discount rate for this particular property.

(2) The aggregate operation has been in existence for many years and has exhibited a reasonably constant level of utilization. We do not believe that single-year fluctuations in commodity prices produce significant changes in value whether using direct or yield capitalization processes. We will remain cognizant of the need to enroll the lesser of the factored base year value adjusted for depletion or addition of reserves or the current market value as of the lien date of these properties.

RECOMMENDATION NO. 6

Bring the mandatory audit program to current status. WE CONCUR

We are utilizing AB818 funding to reduce the mandatory audit backlog. We have authorized overtime for auditor-appraisers and developed a spreadsheet program to increase auditor-appraiser efficiency. We discuss audit guidelines, appropriate levels of documentation, utilization of Rule 193, etc. to try to increase audit production. Backlog reduction takes a number of years and we will continue to work towards the goal of being current in as short a time period as possible.

RECOMMENDATION NO. 7

Revise the procedure for classifying machinery and equipment. WE CONCUR

We have been moving away from the fixture/personalty split as an appraisal method over the past several years. As we develop information to refine the valuation process based on audits of accounting records and field visits, we will move completely to a composite service life for groups of assets.

RECOMMENDATION NO. 8

Require all taxpayers with tangible personal property costing $100,000 or more to file annual property statements as required by section 441. WE CONCUR

The problem occurred with separate business filings of multi-location entities. The Business Property section does try to insure that all sub-units of multi-unit entities which aggregate more than $100,000 do receive property statements. We are reviewing our files to insure that all such units receive property statements.

RECOMMENDATION NO. 9

Revise the property statement processing program by: (1) using certified personnel for appraisals; and (2) using uniform application of service lives within similar business types.

(1) Business property statements are processed by certified personnel. Vessel and aircraft owner reports are processed with the guidance of certified auditor-appraisers using procedures developed by certified personnel.

(2) Our staff shares the Board's concern on equitable treatment of similar property owners, and we strive to achieve uniformity during processing. We do recognize, however, that our goal is to _value_ property, and we may adjust individual business's service lives to reflect a mix of personal property that is dissimilar enough to warrant use of a different life. We will review uniformity issues with the auditor-appraisers prior to processing statements for the next valuation cycle.

RECOMMENDATION NO. 10

Improve general aircraft assessment procedures by: (1) conducting annual field inspections; and (2) making engine hour adjustments consistently.

(1) As time permits we will conduct field inspections of aircraft when appropriate. We do have a high degree of confidence in the information provided by airport personnel and owner responses.

(2) We do concur that adjustments should be made in both directions for engine hours and will implement this recommendation as staffing permits.

RECOMMENDATION NO. 11

Upgrade the boat appraisal procedures by annually appraising pleasure boats at market value.

As time and staffing permit we will review the recommended method. The volatility of the pleasure craft market and the wide variance in sales prices due to physical condition and seller motivations mean that any methodology will produce approximations that may or may not have any greater degree of accuracy for the class of property than the methodology employed by Napa County. We are researching automated programs that may allow more direct use of published boat valuation data.

RECOMMENDATON NO. 12

Revise documented vessel procedures by enrolling the assessed value on the regular enroll. WE CONCUR

We have implemented this recommendation for the 1998-1999 and succeeding roll years.